LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7043 **DATE PREPARED:** Jan 8, 2001
BILL NUMBER: HB 2122 **BILL AMENDED:**

SUBJECT: Capital Investment Tax Credit.

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FUNDS AFFECTED: **X GENERAL** **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: This bill provides a credit against state tax liability for certain qualified capital investments made by a taxpayer. It provides that the amount of the credit is equal to either 7.5% or 13% (if the investment is made in a "distressed area") of the difference between the amount of the taxpayer's qualified investment and the amount of the taxpayer's average annual expenditure in Indiana during the previous three years for similar capital investments. The bill also requires the Department of Commerce to certify the investments as being eligible for the credit.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: This bill creates the Capital Investment Tax Credit and would require the Indiana Department of Commerce (IDOC) to adopt rules and review notices submitted by companies intending to claim this credit. The IDOC would then inform the Department of State Revenue (DOR) whether or not the company is entitled to the credit. The additional expenses and demands associated with this proposal ultimately depend on the number of applicants, however, it is expected that the IDOC could absorb the impact given its existing budget and resources. According to State Department of Personnel information, the Lieutenant Governor's Office had 35 vacant full-time positions as of December 2000.

The DOR would have to adopt rules and develop new forms for the reporting of this new credit but would be able to absorb any related expenses of processing, printing, and computer programming within its current budget.

Explanation of State Revenues: *The Capital Investment Tax Credit would reduce state tax revenues by an indeterminable amount beginning in FY 2002.* This bill creates a credit for companies making certain qualified investments in Indiana provided that the average wage paid to employees exceeds the average wage in the county where the investment is made. Qualified investments would include the purchase of new manufacturing equipment, on-site infrastructure improvements, and other expenditures outlined in the bill.

The credit would be equal to the qualified investment made in a taxable year minus the average annual expenditures for similar investments over the preceding three years. The result of this calculation would then be multiplied by either 7.5% or 13% to produce the actual amount of the credit.

If the qualified investment is made in a distressed area, the 13% adjustment would be used. A distressed area is defined in the bill as a city, county, or town which meets either of the following descriptions: (1) the unit has a five-year average unemployment rate more than twice the national average during the same period; or (2) at least 20% of the population's income is below the federal nonfarm poverty level. If the qualified investment is not made in a distressed area, the lower 7.5% credit adjustment would then be applied.

Example: If a company's average investment from 1998 through 2000 were $1 M and the firm made and qualified investment of $1.5 M in 2001, the credit adjustment would be applied to the difference, or $500,000. If the investment was made in a distressed area, the available credit for FY 2002 would be $65,000 ($500,000 multiplied by 13%). If the investment was not in a distressed area, the credit would be $37,500.

This credit could be taken against a taxpayer's liability under the Gross Income Tax, the Adjusted Gross Income Tax, the Supplemental Net Income Tax, the Bank Tax, the Savings and Loan Association Tax, the Insurance Premium Tax, and the Financial Institutions Tax. Revenue from these taxes is deposited in the General Fund and the Property Tax Replacement Fund. If a pass-through entity without state tax liability is entitled to a credit, a shareholder, partner, or a member of the entity may receive a credit equal to the amount determined for the entity multiplied by that person's share of distributive income. If the credit exceeds a taxpayer's liability in a single year, the excess may be carried forward for up to seven consecutive years. No carrybacks or refunds would be allowed. As this credit is retroactive to January 1, 2001, the first year of state impact could be FY 2002.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, Department of State Revenue.

Local Agencies Affected:

Information Sources: